Chapter does this relate to differentiation?a low-cost

Business, Industries

Chapter 5 questions. 1. Describe low-cost strategy. How does this relate to differentiation? A low-cost strategy implies minimizing the number of managers in the hierarchy and the rigorous use of budgets to control production and selling costs. The main goal here is to reduce the operating costs of the manufacturing and materials-management functions.

One of the major sources of cost savings is to choose an organizational structure and culture to implement this strategy in the most cost-efficient way. For example, Walmart continually takes advantage of advances in IT to lower the costs associated with transferring products from manufacturers to customers. Differentiation is the process of designing products to satisfy customers' needs.

A company obtains a competitive advantage when it creates, makes, and sells a product in a way that better satisfies customer needs than its rivals do. If managers base their business model on finding ways to increase efficiency and reliability to reduce costs, they are choosing a business model based on offering customers low-priced products. With this strategy the company will not be investing their resources in bringing new innovations or uniqueness to the product for which a premium price can be charged. 2. Aside from low-cost strategy, describe other methods that businesses can use to differentiate their products. Aside from low-cost strategy, businesses can differentiate their products by providing something unique with innovation, excellent quality, or responsiveness to the customers. This uniqueness of the products can be achieved in different ways.

It can be from the physical characteristics of a product, resulting from the new innovations or, quality of the features which appeal to the customers' psychological needs, such as a personal need for prestige and status or to declare a particular lifestyle. For example – Godiva chocolates, which retail for about $26 a pound— cost much more than a box of Hershey bars. Here the product is differentiated by the excellent quality and
the customers comfort needs. 3. Describe how businesses approach segmenting the market, and why market segmentation could be an attractive business strategy. Why do businesses segment the market? What approaches can be used to segment the market? How can this lead to competitive advantage? Companies group the customers based on the important differences in their needs or preferences.

Market segmentation is an attractive strategy because grouping the customers according to the similarities or differences in their needs help the companies discover what kinds of products to develop for different kinds of customers. For example, a car with high luxury features may not be purchased by the customers whose need is basic transportation. By using market segmentation the companies can understand the needs of all customers groups and create products basing this information. Three main approaches toward market segmentation in devising a business model. 1. First, a company might choose not to recognize that different market segments exist and make a product targeted at the average or typical customer. In this case, customer responsiveness is at a minimum, and competitive advantage is achieved through low price, not differentiation. 2.

Second, a company can choose to recognize the differences between customer groups and make a product targeted toward most or all of the different market segments. In this case, customer responsiveness is high and products are being customized to meet the specific needs of customers in each group, so competitive advantage is obtained through differentiation, not low price. 3. Third, a company might choose to target just one or two market segments and devote its resources to developing products for customers in just these segments. In this case, it may be highly responsive to the needs of customers in only these segments, or it may offer a bare-bones product to undercut the prices charged by companies who do focus on differentiation. So, competitive advantage may be obtained through a focus on low price or differentiation.

Chapter 6 questions 1. Define fragmented and consolidated industries. What are the differences between these two types of industries? A fragmented industry is one composed of a large number of small and medium sized companies, for example, the dry cleaning, restaurants. A consolidated industry is dominated by a small number of large companies (an oligopoly) or, in extreme cases, by just one company (a monopoly), and companies often are in a position to determine industry prices. For example the aerospace, soft drink and stockbrokerage. Companies search for a business model and strategies that will allow them to consolidate a fragmented industry to obtain the above average profitability possible in a consolidated industry. a. Fragmented industries are characterized by low

entry barriers and commodity-type products that are hard to differentiate, which is the same with the consolidated industries.

b. Fragmented industries has boom-and-bust cycles as industry profits rise and fall. Consolidated industries are more stable in this aspect. 2. What opportunities and advantages do consolidated industries offer that fragmented industries do not? Consolidation offers a relative price advantage whereas fragmented industry has a lot of constraints. With consolidated industries the customer has access to wide range of options in products with easy access, which may not be the case for fragmented industries, as the supply chain differs.

Consolidated industry products may be considered as differentiated products due to the good reputation or unique operation strategies, which may not be the same with fragmented industries. 3. Describe horizontal and vertical integration. Why do businesses leverage these vehicles for growth, and how can they aid in gaining competitive advantage? Horizontal integration – is the process of acquiring or merging with industry competitors to achieve the competitive advantages that arise from a large size and scope of operations. An acquisition occurs when one company uses its capital resources, such as stock, debt, or cash, to purchase another company, and a merger is an agreement between equals to pool their operations and create a new entity. Vertical integration – Vertical integration is based on a company entering industries that add value to its core products because this increases product differentiation and/or lowers its cost structure, thus increasing its profitability.

In pursuing horizontal integration, managers decide to invest their company’s capital resources to purchase the assets of industry competitors to increase the profitability of its single-business model. A company pursuing a strategy of vertical integration expands its operations either backward into an industry that produces inputs for the company’s products (backward vertical integration) or forward into an industry that uses, distributes, or sells the company’s products (forward vertical integration). References: Strategic Management: An Integrated Approach. 2017, 12th edition. South-Western Cengage Learning. Charles W.

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